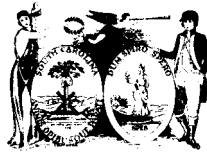


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

September 12, 2001

Mr. Steven Gentzler, CFO
Connelly Management, Inc.
410 Mill Street, Suite 201
Mt. Pleasant, South Carolina 29464

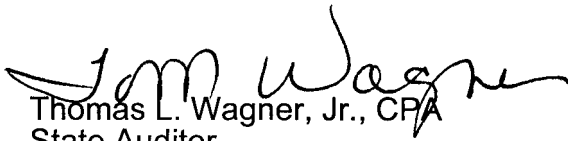
Re: AC# 3-CON-J7 – Conway Nursing Center, Inc.

Dear Mr. Gentzler:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

CONWAY NURSING CENTER, INC.

CONWAY, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-CON-J7**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 4, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Conway Nursing Center, Inc., for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

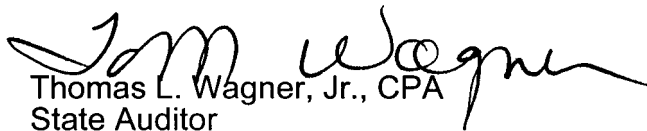
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Conway Nursing Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Conway Nursing Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 4, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

CONWAY NURSING CENTER, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-CON-J7

	<u>10/01/98-</u> <u>11/30/98</u>	<u>12/01/98-</u> <u>09/30/99</u>
Interim reimbursement rate (1)	\$82.08	\$82.83
Adjusted reimbursement rate	<u>79.94</u>	<u>80.69</u>
Decrease in reimbursement rate	\$ <u><u>2.14</u></u>	\$ <u><u>2.14</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

CONWAY NURSING CENTER, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-CON-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.12	\$48.65	
Dietary		8.25	9.44	
Laundry/Housekeeping/Maint.		<u>8.93</u>	<u>7.70</u>	
Subtotal	<u>\$4.61</u>	55.30	65.79	\$55.30
Administration & Med. Records	<u>\$4.05</u>	<u>6.33</u>	<u>10.38</u>	<u>6.33</u>
Subtotal		61.63	<u>\$76.17</u>	61.63
<u>Costs Not Subject to Standards:</u>				
Utilities		1.89		1.89
Special Services		-		-
Medical Supplies & Oxygen		4.28		4.28
Taxes and Insurance		.99		.99
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$68.79</u>		68.79
Inflation Factor (3.60%)				2.48
Cost of Capital				6.67
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.41
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.27)
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$79.94</u>

CONWAY NURSING CENTER, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-CON-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
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Inflation Factor (3.60%)				2.48
Cost of Capital				6.67
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.41
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.27)
CNA Add-On				.75
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$80.69</u>

CONWAY NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-CON-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,564,289	\$ -	\$ -	\$2,564,289
Dietary	555,217	-	-	555,217
Laundry	109,850	-	-	109,850
Housekeeping	276,902	-	-	276,902
Maintenance	213,815	-	-	213,815
Administration & Medical Records	443,369	-	17,366 (3)	426,003
Utilities	126,875	-	-	126,875
Special Services	-	-	-	-
Medical Supplies & Oxygen	287,976	-	-	287,976
Taxes and Insurance	113,439	-	25,282 (2) 21,316 (5)	66,841
Legal Fees	7,886	-	7,598 (7)	288
Cost of Capital	517,637	1,497 (1)	5,715 (4) 64,868 (6)	448,551
Subtotal	5,217,255	1,497	142,145	5,076,607
Ancillary	65,876	-	-	65,876

CONWAY NURSING CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-CON-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Non-Allowable	198,131	25,282 (2) 17,366 (3) 5,715 (4) 21,316 (5) 64,868 (6) <u>7,598 (7)</u>	-	340,276
Total Operating Expenses	<u>\$5,481,262</u>	<u>\$143,642</u>	<u>\$142,145</u>	<u>\$5,482,759</u>
Total Patient Days	<u>67,270</u>	<u>-</u>	<u>-</u>	<u>67,270</u>
Total Beds	<u>190</u>			

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-CON-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 90,034	
	Cost of Capital	1,497	
	Accumulated Depreciation		\$ 86,385
	Other Equity		5,146
	To adjust fixed assets and related depreciation expense HIM-15-1, Section 2304		
2	Nonallowable	25,282	
	Taxes, Insurance, Licenses		25,282
	To remove MIP applied to nonallowable borrowing HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		
3	Nonallowable	17,366	
	Administration		17,366
	To remove working capital interest HIM-15-1, Section 202.1		
4	Nonallowable	5,715	
	Cost of Capital		5,715
	To adjust capital return State Plan, Attachment 4.19D		
5	Nonallowable	21,316	
	Property Taxes		21,316
	To adjust property taxes State Plan, Attachment 4.19D		
6	Nonallowable	64,868	
	Cost of Capital		64,868
	To adjust amortization expense HIM-15-1, Section 233.4		

CONWAY NURSING CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-CON-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Legal Fees	7,598	7,598
	To remove cost of unfiled claims HIM-15-1, Section 2160 State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$233,676</u>	<u>\$233,676</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

CONWAY NURSING CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-CON-J7

	<u>Old Beds</u>	<u>New Beds</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	
Number of Beds	<u>130</u>	<u>60</u>	
Deemed Asset Value	4,428,970	2,044,140	
Improvements Since 1981	1,069,434	-	
Accumulated Depreciation at 9/30/97	<u>(1,660,655)</u>	<u>(696,933)</u>	
Deemed Depreciated Value	3,837,749	1,347,207	
Market Rate of Return	<u>.067</u>	<u>.067</u>	
Total Annual Return	257,129	90,263	
Return Applicable to Non-Reimbursable Cost Centers	(11,009)	(2,961)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>5,466</u>	<u>1,933</u>	
Allowable Annual Return	251,586	89,235	
Depreciation Expense	77,227	66,872	
Amortization Expense	1,363	629	
Capital Related Income Offsets	(16,738)	(5,919)	
Allocation of Capital Expenses to Non-reimbursable Cost Centers	<u>(11,602)</u>	<u>(4,102)</u>	<u>Total</u>
Allowable Cost of Capital Expense	301,836	146,715	\$448,551
Total Patient Days (Minimum 97% Occupancy)	<u>46,027</u>	<u>21,243</u>	<u>67,270</u>
Cost of Capital Per Diem	\$ <u>6.56</u>	\$ <u>6.91</u>	\$ <u>6.67</u>

CONWAY NURSING CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-CON-J7

	<u>Old Beds</u>	<u>New Beds</u>
6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.78*	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.77</u>	<u>\$6.91</u>
Reimbursable Cost of Capital Per Diem		\$6.67
Cost of Capital Per Diem		<u>6.67</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

* Cost of Capital and Return on Equity
Capital Per Diem as recalculated by DH&HS,
as a result of settlement agreement, and
communicated to the provider by letter
dated January 6, 1995.

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